STATE OF MONTANA

SCHOOL FOR THE DEAF AND BLIND

Report on Examination of Financial Statements
Fiscal year ended June 30, 1978

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

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Fiscal year ended June 30, 1978

78-11

Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59601

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ELECTIVE, APPOINTIVE, AND ADMINISTRATIVE OFFICIALS

BOARD OF PUBLIC EDUCATION

Honorable Thomas L. Judge, Governor*

Georgia Ruth Rice, Superintendent of Public Instruction*

George Bandy, Acting Commissioner of Higher Education*

		Term Expires
Harriet C. Meloy, Chairperson	Helena	1985
Tom Thompson	Browning	1980
Marjorie W. King	Winnett	1981
Neil J. Lynch	Butte	1982
Enid O'Leary	Havre	1983
Allen D. Gunderson	Billings	1984
George A. Johnson	Great Falls	1986

*ex officio members

ADMINISTRATIVE OFFICIALS

Floyd J. McDowell — School Superintendent

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the School for the Deaf and Blind is included in the back of this report.

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

RRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR
JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheets of the Montana State School for the Deaf and Blind as of June 30, 1978 and the related Statements of Revenue Compared with Revenue Estimates, Expenditures Compared with Appropriations, and Changes in Fund Balances for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The condition of the school's accounting records relating to fixed assets and equipment was such that we were unable to perform certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards. Accounting records for land, buildings, and equipment are not adequately maintained. Accordingly, a Statement of General Fixed Assets required by generally accepted accounting principles is not included in the financial statements.

The school did not record as a General Fund liability at June 30, 1978, approximately $35,000 in teachers' salaries to be paid in July and August. Although the teachers' contracts are based on a year ending August 31 and salaries are paid over a twelve month period, actual teaching duties are completed in June. The remaining contract payments should have been accrued at June 30, 1978. The net effect on expenditures is not material, since the failure to accrue the expense at fiscal year-end 1977-78 is offset by the failure to accrue the expense at fiscal year-end 1976-77.

At June 30, 1978, the school's balance sheet included cash of $896 and investments totaling $103,938 in the Agency Fund of the state treasury. These assets resulted from donations to the school. Fiscal year 1977-78 investment revenue of $3,070 was also recorded in the Agency Fund. The asset balances and the revenue should have been recorded in the Federal and Private Revenue Fund. This error causes the following Balance Sheet items to be understated in the Federal and Private Revenue Fund and overstated in the Agency Fund:

Cash in treasury	$ 896
Investments - par	2,000
Investments - cost	97,875
Short-term investment pool	4,063

The following Statement of Revenue Compared with Revenue Estimates items are also understated in the

Federal and Private Revenue Fund and overstated in the Agency Fund:

Dividends	$2,718
Investment earnings	146
Short-term investment pool	206

In our opinion, because of the items discussed in the preceding paragraph, the Balance Sheet, Statement of Revenue Compared with Revenue Estimates, and Statement of Changes in Fund Balance for the Agency Fund, and the Balance Sheet and Statement of Changes in Fund Balances for the Federal and Private Revenue Fund do not present fairly, in conformity with generally accepted accounting principles, the financial position as of June 30, 1978, or the results of operations and changes in fund balances of such funds for the fiscal year then ended.

In our opinion, because of the effect of the item discussed in paragraph three, the Balance Sheet for the General Fund does not present fairly, in accordance with generally accepted accounting principles, the financial position of such fund at June 30, 1978.

In our opinion, the Statements of Revenue Compared with Revenue Estimates and the Statements of Expenditures Compared with Appropriations for the General Fund and the Federal and Private Revenue Fund and the Statement of Changes in Fund Balance for the

General Fund present fairly, in conformity with generally accepted accounting principles, the results of operations of such funds and the changes in fund balance of the General Fund for the fiscal year ended June 30, 1978 on a basis consistent with the preceding year.

The accompanying schedule of expenditures by object and the items titled "Combined Total (Memorandum Only)" on the Balance Sheet, Statement of Revenue Compared with Revenue Estimates, Statement of Expenditures Compared with Appropriations and Statement of Changes in Fund Balance are not necessary for a fair presentation of the financial statements but are presented as supplemental information. This information has been subjected to the tests and other auditing procedures applied in our examination of the financial statements and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A
Legislative Auditor

January 26, 1978

COMMENTS

INTRODUCTION

We performed a financial/compliance audit of the School for the Deaf and Blind for the fiscal year ended June 30, 1978. The objectives of the audit were to: (1) determine if the school's financial statements present fairly its financial position and results of operations for the fiscal year ended June 30, 1978, (2) determine if the school complied with applicable laws and regulations, and (3) make recommendations for the improvement in the management and internal controls of the school. As a part of the financial compliance audit, our work included testing for compliance with applicable laws and regulations relating to funds received by the school under Title I and Title VI-C of the federal Elementary and Secondary Education Act. The school was last audited in 1975 by a CPA firm under contract with the Office of the Legislative Auditor.

We thank school officials and staff for their cooperation and assistance during our audit.

BACKGROUND

The Montana State School for the Deaf and Blind was founded in 1893 as part of the Montana State Training School at Boulder. In 1937, the school was transferred to Great Falls and was established as a separate and independent institution of the state of Montana.

It is under the general supervision, direction, and control of the Board of Public Education.

The purpose of the school is to educate children whose hearing or sight is so defective they cannot be successfully taught in the public schools of the state. The school currently has 60 children who live on campus. An additional 62 children reside in the Great Falls area and attend the school as day students. The school also serves approximately 200 deaf and blind children throughout the state through its itinerant teacher program. This program includes four resource consultants who travel throughout the state to consult with parents and teachers of deaf and blind children.

The school was appropriated $1,563,114; $1,079,570 from the General Fund and $483,544 from the Federal and Private Revenue Fund, for operations during fiscal year 1977-78. The school spent $1,529,721 of the total appropriation. School expenditures are accounted for through four programs: Administration, General Services, Education, and Care and Custody. Details of the appropriations and expenditures are shown on the Statement of Expenditures Compared with Appropriations on page 36.

DONATED FUNDS

Section 20-8-111, MCA, states:

"The board of public education shall have the power and it shall be its duty to receive, hold, manage, use, and dispose of any and all real and personal property made over to such

> board or to the state of Montana by purchase, gift, devise, bequest, or otherwise acquired and the proceeds, interest, and income thereof for the use and benefit of said school."

Under the authority provided by this statute, the school had accumulated investments of $103,937 and had cash on hand of $3,593 at June 30, 1978. During fiscal year 1977-78, the school earned $3,070 on these investments and received an additional $7,503 of donations. The school spent $5,876 from donated funds.

In an audit report issued by our office in May 1976, we discussed problems we found concerning the control and disposition of donated funds at the school. At the time of our previous report, the school had nearly $100,000 in donated funds invested in securities and in a savings account in a Great Falls bank, none of which was recorded in the state treasury or the school's financial records. In our report we recommended that the school deposit all cash and securities in the state treasury and report all school moneys in the school's financial reports.

An Attorney General's Opinion issued November 16, 1976, (36 Opinions of the Attorney General, Number 106) held that section 20-8-111, MCA, gives the Board of Public Education complete control over the ultimate disposition of gifts to the school. Pending such disposition, the Opinion states that the state constitution and statutes require that all cash and similar

gifts be deposited in the Federal and Private Revenue Fund of the state treasury.

Contrary to the Attorney General's Opinion, school officials, at the direction of the superintendent, retained $7,132 of donations received during fiscal year 1977-78. An additional $371 was sent to the Board of Investments and was deposited in the state treasury, but was not recorded as revenue by the school. In addition, we found that the school is holding its investments in the Agency Fund of the state treasury rather than the Federal and Private Revenue Fund as specified by the Attorney General.

This failure to record donations during fiscal year 1977-78, and in previous years, caused an understatement of cash on hand in the school's financial statements of $2,338 at July 1, 1977 and $3,593 at June 30, 1978. It also caused revenue to be understated by $7,503.

RECOMMENDATION

We recommend that the school deposit all donations and investments in the Federal and Private Revenue Fund of the state treasury.

Use of Donations

The Attorney General's Opinion, discussed in the preceding section, states that the Board of Public

Education has complete control over the ultimate disposition of gifts to the school. The board has established a policy concerning donated funds which states that donated moneys may only be used or spent with board approval. Contrary to this policy, school officials spent $5,876 of donated funds during fiscal year 1977-78 without the approval of the board.

We noted several instances where donated moneys were spent for questionable items. These items included minor amounts for luncheons of the Board of Public Education's Ad Hoc Committee on the Hearing Impaired, luncheons of the Title VI-C Committee, cash prizes for faculty in a contest, a $150 payroll advance to an employee, and travel advances to the school superintendent.

RECOMMENDATION

We recommend that the school request the Board of Public Education's approval before using or spending donated moneys.

Rental Property

In 1950 the school built two houses with the proceeds from the sale of land donated to the school. It rents the houses to employees for a total of $175 per month. Because the school does not have current

appraisals for these houses, we were not able to determine the fair market value of these rental units or to evaluate the reasonableness of rental amounts.

The $7,503 in donated moneys received by the school during fiscal year 1977-78 includes a total of $1,565 in rent collected from these houses. This money was deposited in a school bank account. The school spent $1,219 of the money primarily for repairs and maintenance of the houses, including a $513 purchase of carpet.

To ensure that the houses are being utilized for the full benefit of the school, school officials should have the houses appraised and should base rents on the appraisal values. Such a procedure is currently used by the Department of Institutions. Rent charged by that department for housing provided to employees is based on the fair market rental value as determined by an independent appraiser. The fair market rental value is discounted by the department when an employee is required to live in the house for the convenience of the department or when the employee is on call 24 hours a day.

School officials should deposit rental proceeds in the state treasury and should seek approval from the Board of Public Education prior to spending rental proceeds. Board of Public Education approval should also be obtained to discount market value rental

payments from the houses. Any discount should not be netted against revenues, but should be charged as a revenue and expense.

RECOMMENDATION

We recommend that the school:

1. Have the two rental houses appraised and base rent amounts on the appraised value.
2. Deposit rental proceeds in the Federal and Private Revenue Fund in the state treasury.
3. Seek Board of Public Education approval prior to spending rental money for repairs on the houses.

CASH

The Montana School for the Deaf and Blind maintains four treasury cash accounts, one local bank account, and three cash change funds. The bank account and the change funds contain contingent revolving fund (state) money, student money, and donated money. We discuss below problems we noted with regard to the contingent revolving fund and student moneys.

Contingent Revolving Fund

The school has an approved $1,000 contingent revolving fund which it holds in a Great Falls bank account. This bank account had a June 30, 1978 balance of $8,710, a total comprised of contingent revolving

fund money, student money and donated money. Commingling other moneys with the contingent revolving fund money causes the imprest amount to be exceeded and reduces the controls provided by an imprest account.

Department of Administration Management Memo 69-2 authorizes the use of the contingent revolving fund for payments: (1) demanding immediate cash payment, and (2) serving specified limited purposes. The school uses the contingent revolving fund to pay wages the students earn at what the school refers to as "make work" jobs. School officials believe this is justified by the small dollar amount of the individual claims, a criterion meeting one of the limited purposes. Since student wages do not require immediate cash payment, and this criterion must be met before the second criterion is considered, use of the contingent revolving fund for this purpose is not proper.

RECOMMENDATION

We recommend that the school:

1. Separate contingent revolving fund money from all other cash.
2. Use the contingent revolving fund in compliance with Management Memo 69-2.

Student Money

The school holds money in trust for approximately 100 students. This money is either deposited in the

school's bank account or kept in one of the three change funds. Section 17-2-202, MCA, states that an agency must receive permission to retain in its possession moneys it would otherwise be required to deposit with the state treasury in an Agency Fund. We noted that the school has not received Department of Administration approval to retain student money.

The three change funds noted above consist of: (1) student and donated moneys kept at the business office, (2) student job money kept at the business office, and (3) student money kept at the dormitory office. The school distinguishes between "student money" given to the student by a parent or guardian and "student job money" earned by the student. We noted that cash on hand in the student job money change fund often exceeds $2,000, an amount significantly higher than that which is reasonable for the needs of the students.

We could find no need for the two cash funds maintained at the school's business office. The dormitory change fund is accessible to students in the evening and on weekends, as well as during the regular school day. This precludes the need for students to keep cash in their rooms. The school should seek Department of Administration approval for the change fund in the dormitory, and should maintain the account on an imprest basis. The amount of the fund should be

limited to the immediate needs of the students. In addition, money received from students or parents, and money collected for nonresident meals eaten at the dormitory, both of which are currently deposited in the dormitory change fund, should be routed directly to the business office.

All other student money should be deposited in the Agency Fund of the state treasury or, if approval is granted by the Department of Administration, should be placed in a bank account.

RECOMMENDATION

We recommend that the school:

1. Seek approval from the Department of Administration for the establishment of an imprest student change fund in the dormitory.
2. Close the two business office change funds.
3. Deposit all student money in the Agency Fund or seek approval from the Department of Administration to retain it in a separate bank account.
4. Route all cash received at the dormitory to the business office.

Use of Student Money

In addition to its intended purpose of meeting immediate student cash needs, the dormitory change fund is also used to: (1) make miscellaneous dormitory

purchases, and (2) loan money to students who have no cash on deposit with the school. Both of these are improper uses of student money. Items needed by the dormitory when the school's business office is closed should be purchased on account. This would strengthen control over dormitory expenses. Money should not be loaned to students, as this in effect uses the money of other students without their consent.

We also noted that adequate controls are not maintained for the dormitory change fund. We found that:

1. Student signatures are not required for withdrawal of money.
2. The student subsidiary accounts contain no detail other than a running balance. The amounts and dates of deposits and withdrawals are not recorded.

A count of the student change fund in the dormitory on December 6, 1978 showed $136 in cash not recorded in the subsidiary accounts. School officials had no explanation for this difference. Maintenance of more complete records would help the school to properly account for student money.

RECOMMENDATION

We recommend that the school:

1. Discontinue paying miscellaneous dormitory expenses from student money.

2. Discontinue making loans to students from other students' money.

3. Require a student's signature for the withdrawal of his money.

4. Maintain a detailed subsidiary ledger for all student money.

EXPENDITURES

Nonpersonal services expenditures for fiscal year 1977-78 totaled $309,084. These were divided by program as follows: Administration $16,409, General Services $91,139, Education $167,421, and Care and Custody $34,115. Our review of expenditure transactions and related accounting records revealed the following problems.

Program Charges

We noted nine instances where expenditures for Repair and Maintenance and Equipment were charged to the incorrect program and appropriation at or near fiscal year-ends 1976-77 and 1977-78, when the budget for the appropriate program was low. School officials believed that this was justified because appropriation authority was granted for the school as a whole rather than by program. However, state law requires the school to obtain approved operational plan amendments prior to making expenditures which do not comply with the approved plan.

We noted other instances where the incorrect program and appropriation were charged. This was due to the school's establishing a subprogram for special foods in the education program rather than in the care and custody program. A total of $18,612 was incorrectly charged to this subprogram during fiscal year 1977-78.

School officials believe that this was justified because it facilitated bookkeeping. The care and custody program currently has no subprograms and no federal appropriation, whereas the education program has both. These incorrect program and appropriation charges distort the school's financial reports. As a result, this information is unreliable for future projections.

We also noted that salary expenses of $10,967 were incorrectly charged to the General Fund appropriation instead of the Federal and Private Revenue Fund appropriation because of a cash shortage during fiscal year 1977-78. Although this was corrected in the following year when federal funds were received, expenditures by fund and appropriation are misstated at fiscal year-end 1977-78. An inter-entity loan between the two funds would have prevented this misstatement.

RECOMMENDATION

We recommend that the school:

1. Obtain operational plan amendments for all program transfers.

2. Charge expenditures to the proper program and appropriation.
3. Seek approval for an inter-entity loan when a fund with appropriation authority has insufficient cash to pay expenses at the time they are incurred.

Employee Travel Reimbursement

The school's only Helena-based employee is the state coordinator for the deaf-blind program. Her duties include monitoring individual education programs for deaf/blind children and coordinating services for deaf/blind children throughout the state. Our review of the coordinator's travel indicated that much of her work is performed in Great Falls. She spent 38 percent of her work days during eight months of fiscal year 1977-78 in Great Falls. According to the coordinator only a small portion of the deaf/blind program actually requires work in Helena. Her travel could have been significantly reduced during fiscal year 1977-78 had she been located in Great Falls.

In addition, we found that the coordinator has been receiving the maximum travel mileage reimbursement for personal car usage. Section 2-18-503, MCA, states in part:

> "When the individual is authorized to operate a privately owned vehicle even though a government-owned or leased vehicle is available, a rate of 3 cents less per mile than the mileage rate allowed by the United States Internal Revenue Service for the preceding year shall be paid."

Since motor pool vehicles were available to this employee, she should have received the lower rate. We determined the employee had received $479 in excess mileage reimbursement between August 1977 and January 1979. Moving this employee to Great Falls would increase control and supervision of the deaf/blind program and would decrease travel costs incurred by the school.

RECOMMENDATION

We recommend that the school:

1. Move the state coordinator for the deaf/blind program to Great Falls.
2. Require Helena-based employees to comply with section 2-18-503, MCA, regarding mileage reimbursement.

Superintendent's Travel

We reviewed the travel claims of the school superintendent for the period from July 1975 through December 1979. The scope of our work in this audit area extended beyond the audit year because of inconsistencies which came to our attention during the course of our audit work. During the period of this review the superintendent spent at least 47 percent of his time in a travel status.

Our review indicated that the superintendent has not submitted travel claims on a timely basis. Although

some claims were prepared on a timely basis, we found several that were prepared at fiscal year end--sometimes as much as eleven months after the fact--from a log maintained by the school's business office personnel. According to school employees, the log is at best a guideline, and is subject to correction based on the superintendent's recall of dates and times of travel. We noted significant differences between the travel details indicated in the log, and those documented on the travel claims.

Our audit included a test comparing invoices for gasoline that the superintendent charged on a school credit card and on a school account at a local gas station, with details on his travel claims. We noted the following problems:

1. In 10 instances, reimbursement was claimed for personal car mileage when the school credit card was used, resulting in an overpayment of $504. For example, the superintendent took a trip to Billings during July 1975 and claimed mileage reimbursement for 746 miles or $112. The school credit card was used during this trip. The superintendent agrees that personal car mileage should not have been claimed.
2. In 20 instances, reimbursement was claimed for personal car mileage when the school car

was filled in Great Falls on the day of departure and/or arrival. For example, the superintendent took a three-day trip to Helena in March 1976 and claimed mileage reimbursement for 195 miles, or $30. He filled the school car both the day he left and after 9:00 p.m. on the day of his return. The superintendent indicated that he was filling the vehicle for use by other school personnel. School personnel indicated that the superintendent uses the school's car approximately 90 percent of the time it is in use.

3. In 14 instances, the town indicated as the place of travel differed from the town in which the school credit card was used. For example, in three different instances the superintendent purchased gas in Missoula when his travel voucher indicated he was in Helena. In another instance, he purchased gas in Glasgow when the travel voucher indicated travel to Havre. The superintendent indicated that the claims are in error.

4. In 27 instances, the school credit card was used out of town, and no travel was indicated on the claim. For example, the superintendent used the school credit card during

eleven unrecorded trips to Helena. The superintendent agreed that the claims were not complete.

5. In 2 instances, the school credit card was used to purchase gas in Opheim, Montana, where the superintendent has relatives. These trips were not recorded on the travel claims. The superintendent stated that one of the trips was part personal business and part state business. He explained that he stopped to visit relatives enroute to Plentywood to hand deliver materials to a student. The superintendent could not recollect any state business that was connected with the second trip.

We also noted the following two problems caused by delay in preparation of travel claims.

1. The October 1976 claim was initially submitted on a timely basis, and then a second October claim was erroneously prepared and submitted at fiscal year-end. Details on these two claims differ as to:
   (1) the number of trips taken,
   (2) the dates of trips taken,
   (3) departure and arrival times,
   (4) the mode of travel used (state car versus personal car), and

(5) miscellaneous expenses incurred.

These errors resulted in an over reimbursement of at least $280 to the superintendent.

2. Since no travel claims for fiscal year 1977-78 had been submitted for the superintendent as of fiscal year-end 1977-78, estimated expenses were accrued. A prior year expenditure adjustment of $1,743 was then required in fiscal year 1978-79 since the accrual exceeded actual expenses incurred.

Because certain of these problems could constitute penal violations, we have referred them to the Governor and Attorney General pursuant to section 5-13-304, MCA.

RECOMMENDATION

We recommend that the school:

1. Seek repayment of excess travel reimbursement made to the superintendent.
2. Require employees to submit travel expense vouchers on a timely basis.
3. Require employees to record all out-of-town travel in school vehicles on travel claims submitted.

PAYROLL

The Montana School for the Deaf and Blind had approximately 100 employees during fiscal year 1977-78. Payroll expenditures for fiscal year 1977-78 were

$1,064,387 for salaries and $156,250 for employee benefits.

Payroll Accrual

Twenty-three of the school's employees are teachers who are on annual contracts from September through August. Their actual teaching duties, however, are from September through June. School officials explained that to facilitate insurance and other elective deductions made from the payroll, the school pays the teachers' salaries over a twelve-month period.

The teachers have earned all of their salary at June 30, and the school is liable to the teachers for the July and August salary payments. These salaries were not accrued at year-end, resulting in an unreported General Fund liability of over $35,000. This represents a valid obligation at June 30, 1978 and should be recognized in the financial statements.

RECOMMENDATION

We recommend that the school accrue all salaries that are earned but not paid at fiscal year-end.

Substitute Staff

Whenever a teacher or care and custody worker is absent, the school replaces that person with a substitute. Payments to substitutes were budgeted as contracted services in fiscal year 1977-78. The cost of

these substitutes should be budgeted and charged to personal services--other compensation to accurately reflect the substance of the transactions. This would require the school to obtain an operational plan amendment to avoid exceeding its full time equivalent (FTE) limitation and budget.

RECOMMENDATION

We recommend that the school budget and charge substitute salaries as personal services.

Nepotism

Section 2-2-302, MCA, prohibits public employees from hiring relatives. In our prior report, issued in May 1976, we noted that the superintendent had employed three members of his immediate family on a part-time basis and one member of his family on a full-time basis as school employees. The Board of Public Education responded that they were the employer of staff at the school, and since no employee at the school was related to a board member, they were in compliance with the law.

During fiscal years 1977-78 and 1978-79, we found four instances where the daughter of the superintendent and sons of the principal were hired part-time at the school. In the first instance, the superintendent's daughter was hired as a substitute teacher for two

consecutive weeks in May 1978. In the second instance, she was hired as a substitute teacher's aid in January 1979. The other two instances occurred in December 1977 when the principal's sons were hired to paint and panel one of the school's rental houses. In each instance the principal authorized the employment.

RECOMMENDATION

We recommend that the school comply with section 2-2-302, MCA, which prohibits public employees from hiring relatives.

Superintendent's Perquisites

In our prior audit report on the school, we noted that the superintendent received a $1,200 food allowance and a house, including utilities, on school property as a $2,400 per year housing allowance. We recommended that the school discontinue providing perquisites in addition to salaries. The school responded that they would refer this recommendation to the Board of Public Education. We reviewed the disposition of this recommendation and found that for fiscal year 1975-76 the superintendent's salary, including the $1,200 food and $2,400 housing perquisites, was $24,600. For fiscal year 1976-77 the board removed the $1,200 food perquisite and replaced it with a $3,600 salary increase. At the same time, the board gave the superintendent an additional salary

increase of $2,000 and continued his housing allowance. This brought the superintendent's compensation to $29,000, $26,600 in salary plus the $2,400 housing allowance, or an increase of 18 percent. Current federal tax law states housing allowances are excludable from gross income if the quarters are furnished for the convenience of the employer. The school provides the superintendent a house, including utilities, on school property as a $200 per month housing compensation. The school has not withheld either federal or state income taxes on this housing allowance.

We were not able to locate any documentation requiring the superintendent to live in this house or stating that the house is furnished for the convenience of the employer. Without such documentation, we could not determine whether the perquisite amount is subject to federal or state income tax.

In addition, the school should record the $2,400 perquisite amount as a personal services expense and rental income in order to properly reflect the transaction in its financial statements.

RECOMMENDATION

We recommend that the Board of Public Education set forth a policy regarding the requirement that the superintendent live in the house provided so that a determination can be made

as to whether the superintendent's housing perquisite is subject to federal or state taxes.

ACCOUNTS RECEIVABLE

The school did not record accounts receivable on SBAS at June 30, 1978 even though the school had completed and billed for services rendered in two instances. The first instance involved an Elementary and Secondary Education Act (ESEA) Title I contract with the Department of Health, Education, and Welfare (DHEW). The school billed DHEW for $5,072 in June, and received payment in the next fiscal year. This billing was not recorded as a receivable at fiscal year-end.

In the second instance, the school had a contract for tutor and interpreter services with the Great Falls School District. The final payment of $6,909 was received July 15, 1978. In an attempt to record this collection as revenue in fiscal year 1977-78, the school credited revenue and debited cash on hand at fiscal year-end.

According to generally accepted accounting principles, these revenues were susceptible to accrual. The two transactions resulted in receivables being understated by $11,981, revenue being understated by $5,072, and cash on hand being overstated by $6,909 at fiscal year-end 1977-78.

RECOMMENDATION

We recommend that the school:

1. Properly record receivables at fiscal year-end.
2. Accrue revenue in accordance with generally accepted accounting principles.

UNRECORDED REVENUE AND EXPENDITURES

The school leased office space to the Fort Benton School District during fiscal year 1977-78. Payment for the lease was in the form of capital improvements totalling approximately $2,300 to the building used. The improvements included carpeting, partitions, and light fixtures.

We also noted that the school received $1,064 and spent $2,414 for participation in Class C athletics during fiscal year 1977-78. Except for the difference of $1,350 which was charged to the education program, neither the revenue nor the expenditures for these transactions were recorded on the Statewide Budgeting and Accounting System. Not recording these transactions circumvents the appropriation and accounting processes and distorts the school's financial reports.

RECOMMENDATION

We recommend that the school record all transactions in its official accounting records to properly reflect revenue and expenditures.

FEDERAL GRANTS

The school receives funds on a cost reimbursement basis under Title I and VI-C of the Elementary and Secondary Education Act. When the reimbursements are not received on a timely basis, the school borrows from the General Fund until the federal funds are available.

Under a cost reimbursement program, money expended but not reimbursed by fiscal year-end should be recorded as a receivable, and revenue received but not expended by fiscal year-end should be recorded as a liability.

Approximately $20,000 of the cash on hand in the Federal and Private Revenue Fund at fiscal year-end 1977-78 is in excess of the reimbursable expenditures made during the audit year. Through our audit tests, we were able to determine that this cash was the result of transactions which occurred prior to fiscal year 1977-78. We were not able to determine the reason for the cash balance.

Two possible reasons for the balance are: (1) an over-reimbursement from the federal government, or (2) General Fund money spent on the federal programs and not repaid. The school should determine the source of the cash and return the money to that source.

RECOMMENDATION

We recommend that the school determine the source of the cash balance in the Federal and Private Revenue Fund and return the money to the appropriate source.

PLANT, PROPERTY AND EQUIPMENT

The school is not able to present a dollar valuation of the cost of plant, property, and equipment for financial statement purposes because it does not maintain adequate fixed asset accounting records. An inventory of equipment was last taken in September 1976. Since that time, purchase orders for equipment items have been grouped, but perpetual inventory records which show equipment costs have not been maintained. The September 1976 inventory did not include reading materials, and the school does not have a listing of the braille books purchased.

RECOMMENDATION

We recommend that the school maintain adequate plant, property, and equipment records.

INTERNAL CONTROL

As part of our examination, we made a study and evaluation of the school's system of internal accounting control to establish a basis for reliance thereon in determining the nature, timing, and extent of other

auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

Our examination would not necessarily disclose all weaknesses in the system of internal accounting control because it was based upon selective tests of accounting records and related data. However, our study and evaluation disclosed one condition that we believe to be a material weakness in the internal accounting controls established by the school and the school's compliance with those controls. This is the first item listed below. We also noted the other weaknesses listed below.

Cash

--The bank cashes checks made payable to the school if endorsed by the superintendent or business manager, and cashes school checks for three other employees with a second endorsement. The bank should be instructed not to cash any checks made payable to the school.

--There is inadequate segregation of duties among persons involved with the processing of cash receipts and disbursements, those recording cash transactions, and those reconciling the accounts.

--The original copies of voided cash collection receipts are discarded. These should be marked "VOID" and attached to the duplicate in numerical sequence.

--The bank's list of authorized check signers is not in agreement with the school's list. Changes in authorized signers are not made on a timely basis.

--Checks cashed from the contingent revolving fund are not made payable to the fund custodian. Reimbursement checks also are not made payable to the custodian, and the bank accepts checks payable to the agency for deposit.

--Cash collections were not deposited on an intact and timely basis in accordance with MOM 2-1210.22 and .23.

--There are no dollar limits on the amount of contingent revolving fund checks. This is a significant weakness because of the commingling of contingent revolving fund money with donated and student moneys.

--A fiscal year-end contingent revolving fund reconciliation is not prepared.

Supplies

--There is inadequate segregation of duties with regard to responsibilities for physical control, ordering, receiving, and disbursing of food supplies. Other controls are not adequate to safeguard the food supplies.

Payroll

--There is inadequate separation of duties between the preparation of the payroll and the distribution of the payroll warrants.

--Leave requests supporting leave taken are not required for all employees of the school.

Travel

--The expenditure codes charged at the time of contingent revolving fund reimbursement are not compared with the travel claims submitted. This causes a discrepancy between actual expenses incurred and those charged.

--The school does not maintain a detailed list of travel advances receivable.

--Travel advances are not supported by signed requests. These requests provide a basis for the advance made.

Equipment

--We noted that in 2 of 17 equipment items sampled, the items were not properly signed out when they were removed from the school premises.

RECOMMENDATION

We recommend that the school correct the internal control weaknesses discussed above.

PRIOR REPORT RECOMMENDATIONS

A fiscal year 1974-75 audit of the school was conducted by a CPA firm under contract with the Office of the Legislative Auditor. An additional report was issued by the Office of the Legislative Auditor in April 1976. The two reports contained 28 recommendations which are still applicable to the school's operation. The school concurred with eleven recommendations which have not been implemented. The school's response indicated that an additional four recommendations were

referred to the Board of Public Education. Three of these have not been implemented and the fourth was partially implemented. The following table shows the status of implementation of the recommendations:

RECOMMENDATIONS AND STATUS

Recommendation	Agency Response	Status During Audit
Review with the Department of Administration present policy of expenditure abatements	Concur	Not implemented
Consult with the State Board of Investments and ask that the school be furnished a copy of all accounting documents initiated by that agency and the manner of revenue allocation	Concur	Implemented
Request that the Department of Administration send the school all SBAS monthly journals and reports involving the school	Concur	Implemented
Match expenditures directly as they are paid against the proper appropriation	Concur as possible	Not implemented
Review the method of recording the reimbursements due on federal grants and of recording the unexpended balances that have to be refunded	Concur	Not implemented
Revolving fund cash be kept entirely separate from students' trust funds and other cash	Concur	Not implemented
Student trust funds and special project trust funds should be maintained in a separate bank account	Concur	Not implemented
Student trust funds and revolving fund cash be maintained by personnel other than those with accounting duties	Do not concur	Not implemented

Recommendation	Agency Response	Status During Audit
Deposit all assets from the foundation with the State Treasurer and record the transactions involving these funds on SBAS	Did not respond	Partially implemented
Maintain a detailed listing of all fixed assets	Concur	Not implemented
Take an annual physical inventory of all fixed assets	Concur	Not implemented
Establish stock control on supplies and take at least an annual physical inventory	Concur	Not implemented
Maintain stock control records on major items of food and compare present quarterly physical inventory to stock records	Concur	Not implemented
Require that all employees sign time records	Concur	Implemented
Document basis for employee's pay and make this a part of his/her personnel file and document employee status changes	Concur	Implemented
Consult with the Department of Administration on method of accounting on vocational education reimbursement program	Concur	Implemented
Review funding of Title VI-C grant with DHEW to curtail delay in receiving reimbursements	Concur	Implemented
A remittance listing should be prepared on cash received by mail	Concur	Implemented
Consult with the Department of State Lands and ask that the school be furnished a copy of all accounting documents initiated by that agency	Concur	Implemented

Recommendation	Agency Response	Status During Audit
Consult with the Department of State Lands and request: (1) a detailed annual accounting of all the revenues going to that agency on behalf of the school, and (2) the exact manner of allocation each year	Concur	Implemented
Comply with section 17-6-105, MCA, and deposit all cash and securities in the state treasury	Concur	Partially implemented
Report all school moneys in the school's financial reports	Concur	Not implemented
Withhold state and federal taxes on actual taxable compensation for all employees	Referred to the Board of Public Education	Not implemented
Discontinue the practice of providing perquisites in addition to salaries for all employees	Referred to the Board of Public Education	Partially implemented
Comply with section 2-2-302, MCA, which prohibits nepotism	Concur	Not implemented
Review its housing policies and charge rent based upon the value of housing provided	Referred to the Board of Public Education	Not implemented
Deposit the proceeds of its housing rental into the proper fund in the state treasury and expend money for its rental houses only in accordance with a legislative appropriation for that purpose	Referred to the Board of Public Education	Not implemented
Review the need for its housing program	Concur	Implemented

Various sections of this report include discussion of those recommendations which the school has not implemented or for which the school has not taken adequate corrective action.

FINANCIAL STATEMENTS

MONTANA STATE SCHOOL FOR THE DEAF AND BLIND
ALL FUNDS
BALANCE SHEETS
JUNE 30, 1978

	General Fund	Federal and Private Revenue Fund	Agency Fund	Combined Total (Memorandum Only)
Assets:				
Revolving fund cash	$ 1,000			$ 1,000
Cash in treasury		$138,741	$ 896	139,637
Cash on hand		31,055		31,055
Investments - par			2,000	2,000
Investments - cost			97,875	97,875
Transfers to short-term investment pool - principal			4,063	4,063
Appropriation authority available to pay accrued expenditures	23,280			23,280
Total assets	$24,280	$169,796	$104,834	$298,910
Liabilities and Fund Balance:				
Accrued support expenditures	$23,280	$ 203		$ 23,483
Reserve for contingent revolving fund advances	1,000			1,000
Fund balance	-0-	169,593	$104,834	274,427
Total liabilities and fund balance	$24,280	$169,796	$104,834	$298,910

See accompanying Notes to Financial Statements

MONTANA STATE SCHOOL FOR THE DEAF AND BLIND
ALL FUNDS
STATEMENTS OF REVENUE COMPARED WITH REVENUE ESTIMATES
FISCAL YEAR ENDED JUNE 30, 1978

Revenue Category	General Fund Estimated	General Fund Actual	Federal and Private Revenue Fund Estimated	Federal and Private Revenue Fund Actual	Agency Fund Estimated	Agency Fund Actual	Combined Total (Memorandum Only) Estimated	Combined Total (Memorandum Only) Actual
Investment Earnings						$ 146		$ 146
Short Term Investment Pool						206		206
Dividends						2,718		2,718
Rentals		$3,420						3,420
Private Grants			$ 60,500	$ 60,438			$ 60,500	60,438
HEW Office of Education			221,800	305,637			221,800	305,637
Department of Agriculture			3,000	18,396			3,000	18,396
Total	$ -0-	$3,420	$285,300	$384,471	$ -0-	$3,070	$285,300	$390,961

See accompanying Notes to Financial Statements

MONTANA STATE SCHOOL FOR THE DEAF AND BLIND
ALL FUNDS
STATEMENTS OF EXPENDITURES COMPARED WITH APPROPRIATIONS
FISCAL YEAR ENDED JUNE 30, 1978

	Administration	General Services	Education	Care and Custody	Total
General Fund					
Appropriations	$ 97,815	$135,966	$462,379	$375,201	$1,071,361
Amendments	3,249	24,753	29,763	(49,556)	8,209
Total Available	101,064	160,719	492,142	325,645	1,079,570
Expenditures	101,012	160,674	492,139	325,177	1,079,002
Unexpended Balance	$ 52	$ 45	$ 3	$ 468	$ 568
Federal and Private Revenue Fund					
Appropriations			$395,500		$ 395,500
Amendments			88,044		88,044
Total Available			483,544		483,544
Expenditures			450,719		450,719
Unexpended Balance			$ 32,825		$ 32,825
Combined Totals (Memorandum Only)					
Appropriations	$ 97,815	$135,966	$857,879	$375,201	$1,466,861
Amendments	3,249	24,753	117,807	(49,556)	96,253
Total Available	101,064	160,719	975,686	325,645	1,563,114
Expenditures	101,012	160,674	942,858	325,177	1,529,721
Unexpended Balance	$ 52	$ 45	$ 32,828	$ 468	$ 33,393

See accompanying Notes to Financial Statements

MONTANA STATE SCHOOL FOR THE DEAF AND BLIND
ALL FUNDS
STATEMENTS OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1978

	General Fund	Federal and Private Revenue Fund	Agency Fund	Combined Total (Memorandum Only)
Balance at July 1, 1977	$ -0-	$118,296	$101,393	$ 219,689
Additions:				
Appropriations from the General Fund	1,079,570			1,079,570
Revenue collected by other agencies		95,433		95,433
Revenue and income	3,420	384,471	3,070	390,961
Expenditure charged to prior year appropriations	725			725
Prior year income and revenue adjustments	71	22,523		22,594
Donations credited to Fund Balance			371	371
Total	1,083,786	620,723	104,834	1,809,343
Deductions:				
Expenditures	1,079,002	450,719		1,529,721
Deposits to the General Fund	3,420			3,420
Deposits of prior year income and revenue to the General Fund	71			71
Prior year expenditure adjustments	725	411		1,136
Reversions	568			568
Total deductions	1,083,786	451,130	-0-	1,534,916
Balance at June 30, 1978	$ -0-	$169,593	$104,834	$ 274,427

See accompanying Notes to Financial Statements

MONTANA STATE SCHOOL FOR THE DEAF AND BLIND

Notes to the Financial Statements
Fiscal Year Ended June 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System (SBAS). The state of Montana utilizes the modified accrual basis of accounting. Modified accrual is defined as, "That method of accounting in which expenditures are recorded on the basis of valid obligations and revenues are recorded when received in cash. Full accrual accounting will be permitted if the need justifies the application. At the end of a fiscal year, all valid obligations against an appropriation are to be accrued as expenditures as provided by law" (Montana Operations Manual, 2-0240.40).

Inventories

There is no asset recorded for supplies inventory. Supplies are expensed when purchased.

General Fixed Assets and Depreciation

General fixed assets are expensed at the time of purchase. There are no control accounts and depreciation is not recorded for general fixed assets.

Vacation and Sick Pay

Liabilities incurred because of unused vacation and sick pay by employees are not recorded. The related expenditure is recorded when paid. Permanent

employees are allowed to accumulate and carryover a maximum of two years' vacation into a new calendar year. Upon termination, qualifying permanent employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused, accumulated vacation and sick leave at June 30, 1978, was not readily determinable.

2. RETIREMENT PLANS

The Montana State School for the Deaf and Blind participates in two retirement systems: Teachers' Retirement System (TRS), and Public Employees Retirement System (PERS). The school's 1977-78 contributory share was 6.312 percent for TRS and 5.95 percent for PERS of the employee's salaries and wages. The employees' contributions were 6.187 percent for TRS and 6.0 percent for PERS. Total retirement plan expenses were $63,512 in fiscal year 1977-78.

3. REVENUE COLLECTED BY OTHER AGENCIES

The Department of State Lands administers and controls the leasing, grazing fees, sale and royalties of school lands. During fiscal year 1977-78, State Lands collected $95,433 for the school, $65,765 from leases and $29,668 from interest and income.

4. INVESTMENTS

The Investments - par account with a balance sheet valuation of $2,000 consists of corporate bonds with a market value of $1,653 at June 30, 1978.

The Investments - cost account with a balance sheet valuation of $97,875 consists of certificates of deposit, preferred stock and common stock with a market value of $93,754 at June 30, 1978.

MONTANA STATE SCHOOL FOR THE DEAF AND BLIND
ALL FUNDS
SCHEDULE OF EXPENDITURES BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1978

Expenditure Category	Administration	General Services	Education	Care and Custody	Total
Personal Services					
Salaries	$ 74,397	$ 60,363	$676,406	$253,221	$1,064,387
Employee Benefits	10,206	9,172	99,031	37,841	156,250
Total Personal Services	84,603	69,535	775,437	291,062	1,220,637
Operating Expenses					
Contracted Services	269	5,072	37,529	10,833	53,703
Supplies and Materials	1,170	16,546	53,157	17,359	88,232
Communications	6,330		408	131	6,869
Travel	6,354		23,924	646	30,924
Rent	11	52	34,087		34,150
Utilities		43,099			43,099
Repair and Maintenance	469	18,282	1,315	4,044	24,110
Other Expenses	128	4,371	1,900	84	6,483
Total Operating Expenses	14,731	87,422	152,320	33,097	287,570
Equipment	1,678	3,717	15,101	1,018	21,514
Total Expenditures	$101,012	$160,674	$942,858	$325,177	$1,529,721

See accompanying Notes to Financial Statements

AGENCY REPLY

MONTANA SCHOOL for the DEAF and BLIND
3911 CENTRAL AVENUE PHONE 453-1401 GREAT FALLS, MONTANA 59401

J. McDOWELL, SUPERINTENDENT
IDENCE PHONE 453-4179
A CODE 406

March 22, 1979

RECEIVED
MONTANA LEGISLATIVE AUDITOR

Morris L. Brusett
Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Morris:

This letter is in response to the copy of the final draft of your report on the audit of the Montana School for the Deaf and the Blind. There are a few general comments or observations I want to make in addition to your request for responses to specific recommendations in the audit.

For an administrator, an audit can and should be an effective tool. This is my attitude. The implementation of recommendations set forth in an audit are all theoretically possible provided the expertise of understanding them and knowing how to accomplish them is available. The agency administrator who is not an accounting expert or who does not have immediately available this area of expertise is extremely vulnerable. Some recommendations although theoretically possible are not necessarily prudent if the effectiveness of overall programmatic goals is desired. These are judgement decisions which should be arrived at through a mutual understanding and agreement between those responsible for accounting and auditing standards and those people responsible for programmatic goals and effectiveness for children, parents, professionals and other interested or involved agencies.

I offer the above observation in light of the comments made relative to the audit three years ago and also relative to the present audit. As I recall--but have not found written documentation--there was to be a "post audit" (I am not sure of the term) after the audit of three years ago for the purpose of follow-up on recommendations. No such help was given. I would make a suggestion in this regard for your consideration. Please follow up your audit with <u>on-site</u> visits to assist an agency in compliance.

When SBAS was initiated seven years ago, a couple of meetings were held in Helena to explain the system. Agency heads, business managers and bookkeepers attended. We were told repeatedly that this new system was so simple that there would be no need for accountants at the agency level--we just needed clerks for coding of documents. Not so--the agency needs an accountant as business manager. A professional capable of understanding the system so that compliance with procedural matters is nearly automatic.

By our assessment, the volume of work in terms of forms and documents has increased nine-fold in seven years and this is just in the business domain. A similar increase has concurrently occurred in the programmatic areas of education, care & custody, and health. There has been no similar increase in professional and clerical help. In the past seven years we have increased the office staff by one FTE--a clerk-general office III, a grade 6 position.

I will now address the recommendations:

Recommendation - Page 4

Action has been initiated.

Recommendation - Page 5

An agenda item will be sent to the Board of Public Education by or before the July meeting.

Recommendation - Page 7

Will be implemented before July 1.

Recommendation - Page 8

Immediately implemented.

Recommendation - Page 10

Will be implemented as time and workload allows -no later than June 30.

Recommendation - Page 11 & 12

There are a few practical problems involved which we will have to work out between the auditor's office, ourselves and perhaps the Board. I don't consider them unsolvable. For example, how do you get a 5 year old to sign for withdrawal

or money from his or her account?

Recommendation - Page 13 & 14

I see no problem for our business manager following these recommendations.

Recommendation - Page 15

With regard to moving the state coordinator for the deaf/blind program to Great Falls, I consider this an administrative matter which bears some planning and thought before making a change. It is true that moving this person to Great Falls would increase control and supervision. However, I hesitate to concur that travel costs would decrease. There are 46 children registered as deaf/blind in Montana. These children also qualify under the definition of developmentally disabled. As such, we have developed a close working relationship with the DD Division of SRS. This kind of interagency cooperation is vital toward implementation of programmatic goals and objectives.

There are 14 of these children in Great Falls. 13 attend the Montana School for the Deaf and Blind and one attends Special Ed in the local district. Eleven of the 14 are in group homes. Two of the group homes were started in July of 1977 and designed specifically for the children served and to move them out of Boulder. To establish the programming goals; to select staff; and to supervise and monitor these objectives, we involved our deaf/blind coordinator. These two group homes have operated well for a year and-a-half. At the present time plans are underway to consolidate the management and budgeting of these two homes with a third one operating in Great Falls for children. The new alignment will decrease the need for the deaf/blind coordinator to travel to Great Falls.

An additional 7 deaf/blind children are at the present time still at Boulder. The remaining 25 deaf/blind children are located in towns all over the state from Kalispell to Sidney. Keeping in contact with program arrangements for these children and complying with the mandate of the federal government for parental services requires travel no matter where the coordinator

is located. Future program directions are in place to increase the coordinator's involvement with those children outside the School for Deaf and Blind and Boulder River School and Hospital. Adequate day-to-day and immediate supervision for these two programs is in place at the agencies.

Regarding the second point of this recommendation--we were not aware of this regulation or at least I wasn't. There is no problem with compliance.

Recommendation - Page 19

I concur with all three recommendations. The errors and exceptions pointed out in the audit are most embarrassing to me--because they reflect on the whole school, the sincere and dedicated staff and the Board. To all of them I offer my apology.

My procrastination and lack of concern for my personal affairs is the basic cause of these errors. These weaknesses notwithstanding, it is regrettable that business management internally did not eliminate at least 99% of these errors.

Because of the errors, I have no disagreement with the repayment recommendation. I would like to state that overall I have not profited financially, duplications and errors notwithstanding. Every employee of the state who travels and stays overnight loses money unless he or she stays with a relative or friend--and then the break-even possibility is questionable.

Recommendation - Page 20

We would be happy to do so if appropriated funds.

Recommendation - Page 21

A procedural matter that our business manager can handle.

Recommendation - Page 22

It would appear that under the strictest interpretation of the law, this recommendation is

appropriate. However, I have never been led to believe that laws are established to cause inferior service or circumvent the primary purpose of doing or providing the best service for children.

If we had a list or availability of just reasonably qualified substitutes for occasional short term use and then did not use them in preference to a relative--I would say a gross error has been made. We do not have that availability. The supervising staff here at school has the authority from me to hire substitute and short term replacements that they wish and feel are adequate. Because of the unavailability of persons who have communication skills with the deaf or Braille skills and understanding of the blind, we are forced to compromise and secure a "warm body" in many instances. To not use available persons with some essential skills would seem to me to be a worse offense against our programmatic purposes.

Recommendation - Page 23

The Board, I am sure, will act on this matter.

Recommendation - Page 25

Can be implemented by our business manager.

Recommendation - Page 27

Can be implemented by our business manager.

Recommendation - Page 30

Can be implemented by our business manager.

These internal controls recommended can and will be initiated by our business manager on a timely basis.

Situations and occurrences have led to a vacancy recently in our business office. This has offered an opportunity for a trained professional with backgrounds in accounting and auditing. The Board has authorized a replacement on an acting basis pending final and proper disposition. Mr. Miral Gamradt from the Legislative Fiscal Analyst's office is on board in this acting capacity.

Sincerely,

Floyd J. McDowell

Floyd J. McDowell
Superintendent

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